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SIMPSON-SEARS LIMITED

and subsidiary companies

ANNUAL REPORT FOR FISCAL YEAR ENDED

JANUARY 4, 1967

directors

CROWDUS BAKER	JOHN F. GALLAGHER
JACK C. BARROW	J. GRANT GLASSCO
HOWARD A. BENTHIN	GORDON M. GRAHAM
EDGAR G. BURTON	CHARLES L. GUNDY
G. ALLAN BURTON	DOUGLAS J. PEACHER
JAMES W. BUTTON	WILLIAM P. SCOTT
AUSTIN T. CUSHMAN	ROBERT E. WOOD

officers

JACK C. BARROW <i>Chairman of the Board and Chief Executive Officer</i>	DOUGLAS J. PEACHER <i>President</i>
JAMES D. IRVING <i>Vice-President, Merchandising</i>	EDWARD A. PICKERING <i>Vice-President, Catalogue Order</i>
H. A. KING <i>Vice-President, Personnel</i>	MORGAN REID <i>Vice-President, Planning and Development</i>
JOSEPH R. O'KELL <i>Vice-President and Secretary</i>	FREDERICK R. SOUTHMAYD <i>Vice-President, Finance</i>
JAMES F. ANDERSON <i>Treasurer</i>	

head office

108 MUTUAL STREET, TORONTO 2, CANADA

transfer agent and registrar

THE ROYAL TRUST COMPANY, TORONTO, ONT.; MONTREAL, P.Q.

SIMPSON-SEARS LIMITED

HIGHLIGHTS

	1966	1965
Net sales - - - - -	\$407,759,157	\$351,708,203
Net earnings - - - - -	10,155,823	8,809,617
Per share - - - - -	.74	.65
Dividends to shareholders - - - - -	4,067,681	4,055,377
Per share - - - - -	.30	.30
Shareholders' equity (book value end of year) -	98,955,975	89,929,358
Per share - - - - -	7.20	6.64
Municipal realty and business taxes - -	3,147,664	2,769,457
Federal and provincial income taxes - -	10,950,000	8,855,000
Provision for depreciation - - - - -	4,519,940	4,281,707
Contribution to future employee retire- ment programs - - - - -	2,345,647	1,747,544
- Contributed to Simpsons-Sears Profit Sharing Retirement Fund - - -	1,501,791	1,731,884
- Contributed to Canada and Quebec Pension Plans - - - - -	843,856	15,660
Capital expenditures - - - - -	6,940,995	9,987,165



JACK C. BARROW, *Chairman of the Board*



DOUGLAS J. PEACHER, *President*

SIMPSON-SEARS LIMITED

Directors' report to shareholders

The Company's performance in 1966 was marked by new highs in sales and profits. For the first time our consolidated Net Sales exceeded \$400 million and Consolidated net earnings exceeded \$10 million.

Consolidated net sales amounted to \$407,759,157 representing an increase of 15.9% over 1965.

Net Earnings were \$10,155,823 or 74¢ per share compared with \$8,809,617 or 65¢ per share in 1965.

Dividends of 30¢ per share were paid to shareholders during the year, the same rate of dividend as in 1965.

Shareholders' equity at year end totalled \$98,955,975 or \$7.20 per share compared to \$89,929,358 or \$6.64 per share last year.

Total assets at the end of 1966 were \$303,544,863 compared with \$268,007,969 a year earlier.

Working capital was \$137,448,115, an increase of \$27,935,842 over the previous year.

DEVELOPMENT AND EXPANSION

The expansion and improvement of our facilities proceeded in 1966 according to plan. Capital expenditures on plant and equipment during the year amounted to \$6,940,995 compared with \$9,987,165 in 1965.

A large department store was opened in St. Catharines in May 1966. Additions to the Toronto and Vancouver Catalogue Order centres were completed to handle the increasing catalogue volume.

In 1967 we will open a second large department store in Ottawa. We are expanding the size of the stores in Nanaimo and Kingston and a new larger store will be opened in the Bonnie Doon Shopping Centre in Edmonton to replace the present small store.

We are continuing to examine a number of other opportunities for the expansion of both our retail and catalogue business.

SIMPSONS-SEARS PROFIT SHARING RETIREMENT FUND

The Company contributed \$1,501,791 to the Fund in accordance with the provisions of the Plan governing company contributions. This was in addition to \$843,856 paid by the Company to the Canada Pension Plan and the Quebec Pension Plan on behalf of employees, which made a combined total of \$2,345,647 contributed, for the year, toward employee future retirement programs. This compared with \$1,747,544 in 1965.

DIRECTORS AND OFFICERS

Following the Annual Meeting in April 1966, Mr. Gordon M. Graham, Chairman of the Board and Chief Executive Officer, having reached retirement age, retired after 38 years of valuable service to the company. He was replaced by Mr. Jack C. Barrow, who was formerly Executive Vice President of the Company.

In April 1966, Mr. Douglas J. Peacher, who had 28 years of experience in senior merchandising and executive positions in Sears, Roebuck and Co., replaced Mr. James W. Button as President of the Company. Mr. Button resigned to accept a senior executive appointment in Sears, Roebuck and Co.

During the year we were saddened by the death of Mr. Norman C. Urquhart who had been a member of the Board of Directors of the Company since it was founded in 1952. Mr. Urquhart was a great strength to the Board and to the Company, and he will be sorely missed.

Mr. J. Grant Glassco, President of Brazilian Light and Power Company Limited, and Director of a number of other companies was appointed to the vacancy on the Board.

APPRECIATION

Through the constant efforts and devotion of our employees and the fine support of our sources of supply the Company was able to achieve record sales and profits in 1966.

To all members of the Simpsons-Sears organization and to our many sources of supply we express our sincere appreciation.

Our associates in Simpsons Limited and Sears, Roebuck and Co. play an important part in the success of the Company and we are grateful for their continued cooperation and support.

OUTLOOK

Although there are signs of some slowdown in the rate of increase in consumer spending, we are confident that through continuing improvement in our merchandise offerings, expansion of our facilities and constant attention to a better performance in established units we can achieve further progress in 1967.

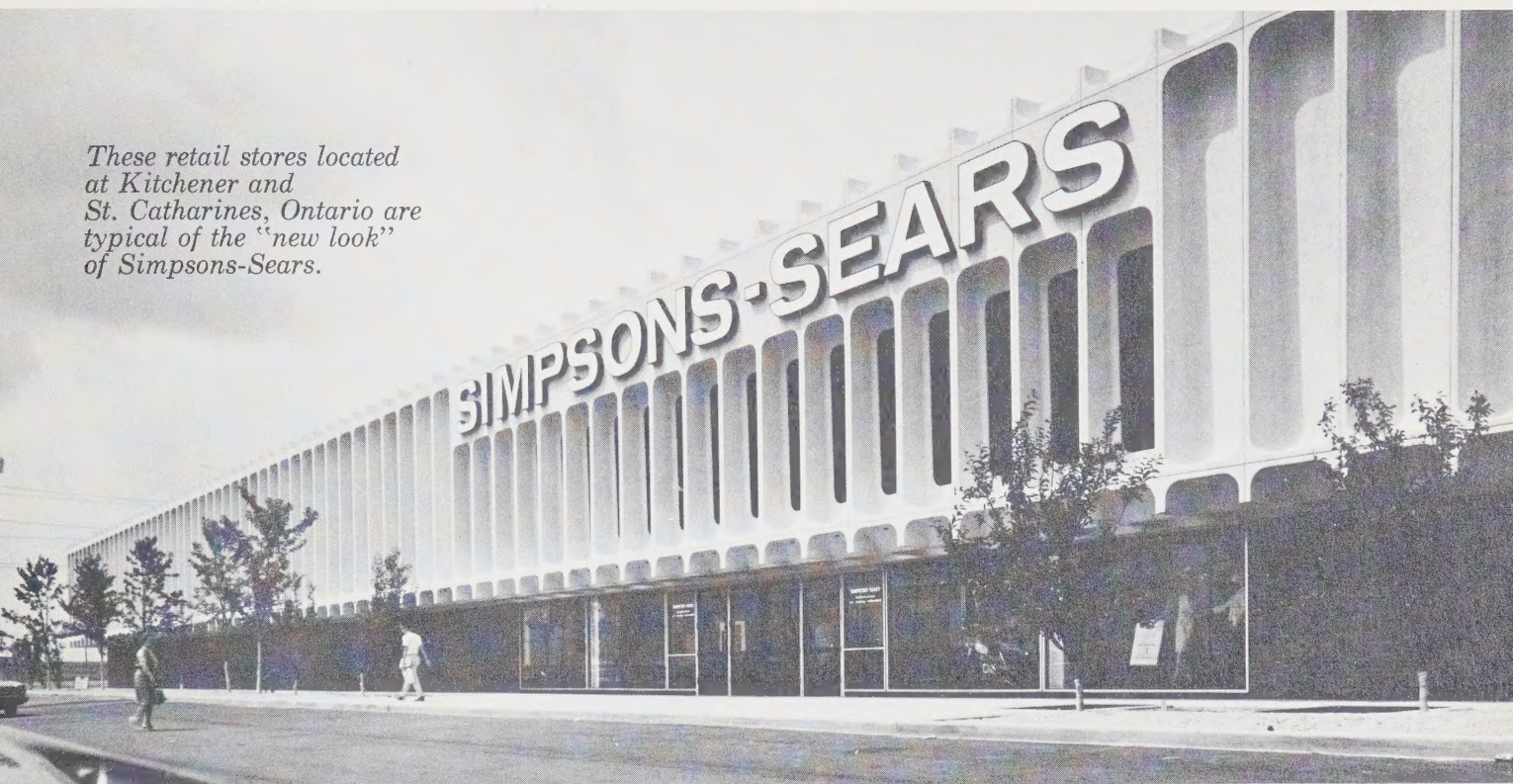


March 20, 1967

Chairman

President

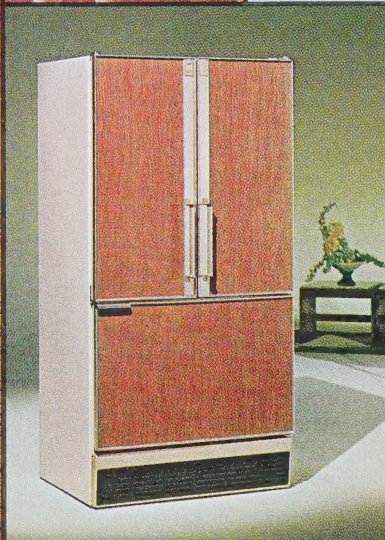
These retail stores located at Kitchener and St. Catharines, Ontario are typical of the "new look" of Simpsons-Sears.



Kitchener, Ontario—opened August, 1965

St. Catharines, Ontario—opened May, 1966







Creative Merchandising is the philosophy of Simpsons-Sears. The vast array of wanted, consumer-oriented products are researched, engineered and laboratory tested to ensure comfort, quality and style at reasonable prices.

The colourful catalogues and tastefully appointed retail stores present these products to the Canadian public with a time-honoured guarantee:

Satisfaction or Money Refunded.

SIMPSON-SEARS LIMITED

and subsidiary companies

CONSOLIDATED BALANCE SHEET

AT FISCAL YEAR-END
JANUARY 4, 1967 JANUARY 5, 1966

assets

CURRENT ASSETS:

Cash on hand and in banks - - - -	\$ 2,529,741	\$ 4,064,250
Government of Canada bonds, at cost	77,950	77,950
Accounts receivable (Note 1) - - -	156,040,845	134,542,351
Inventories valued at the lower of approximate cost or market - - -	72,894,846	62,763,271
Prepaid advertising and other charges	6,260,426	6,080,867
	<u>237,803,808</u>	<u>207,528,689</u>

INVESTMENTS AND OTHER ASSETS:

Investments and advances, at cost (Note 2) - - - - -	6,936,674	7,048,712
Notes receivable on sales of Class A shares of Simpsons-Sears Limited to employees of the Company and to employees of associated companies	3,238,673	953,136
Refundable federal tax - - - - -	385,860	—
	<u>10,561,207</u>	<u>8,001,848</u>

FIXED ASSETS, AT COST:

Land and buildings - - - - -	47,820,127	46,161,638
Equipment and fixtures - - - - -	29,603,788	26,252,809
	<u>77,423,915</u>	<u>72,414,447</u>
Less—Accumulated depreciation - -	23,874,772	21,223,836
	<u>53,549,143</u>	<u>51,190,611</u>

UNAMORTIZED BOND AND DEBENTURE DISCOUNT AND EXPENSE - - - - -

1,630,705	1,286,821
<u>\$303,544,863</u>	<u>\$268,007,969</u>

	AT FISCAL YEAR-END	
	JANUARY 4, 1967	JANUARY 5, 1966
<i>liabilities</i>		
CURRENT LIABILITIES:		
Demand and short term notes (Note 3)	\$ 60,118,400	\$ 65,465,600
Accounts payable - - - - -	20,064,589	17,638,345
Accrued wages, rent, interest, etc. - -	10,561,484	7,868,500
Income and other taxes - - - - -	8,109,429	5,312,087
Contribution payable to Simpsons- Sears Profit Sharing Retirement Fund - - - - -	1,501,791	1,731,884
	100,355,693	98,016,416
LONG TERM DEBT (Note 4) - - - - -	99,296,195	75,259,195
DEFERRED INCOME TAXES (Note 5) - -	4,937,000	4,803,000
	204,588,888	178,078,611
<i>shareholders' equity</i>		
CAPITAL STOCK (Note 6):		
Authorized—		
1,800,000 Class A shares of no par value		
6,000,000 Class B shares of no par value		
6,000,000 Class C shares of no par value		
Issued—		
1,743,485 Class A shares - - - -	9,806,936	6,868,461
6,000,000 Class B shares - - - -	20,000,000	20,000,000
6,000,000 Class C shares - - - -	20,000,000	20,000,000
	49,806,936	46,868,461
EARNINGS EMPLOYED IN THE BUSINESS -	49,149,039	43,060,897
	98,955,975	89,929,358
	\$303,544,863	\$268,007,969

Approved on behalf of the Board

J. C. BARROW, *Director*

D. J. PEACHER, *Director*

SIMPSON-SEARS LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF EARNINGS

	FOR FISCAL YEAR ENDED JANUARY 4, 1967	JANUARY 5, 1966
Net sales - - - - -	\$407,759,157	\$351,708,203
Other income - - - - -	461,039	352,199
	<u>408,220,196</u>	<u>352,060,402</u>
Deduct:		
Cost of merchandise sold and all expenses, except the items shown below	368,376,447	319,001,811
Provision for depreciation - - - -	4,519,940	4,281,707
Interest on bonds and debentures (including amortization of discount and expense) - - - - -	5,171,244	4,051,787
Other interest - - - - -	3,553,431	2,543,479
Municipal realty and business taxes -	3,147,664	2,769,457
Contribution to Simpsons-Sears Profit Sharing Retirement Fund - - - -	1,501,791	1,731,884
Contributions to Canada and Quebec Pension Plans - - - - -	843,856	15,660
	<u>387,114,373</u>	<u>334,395,785</u>
Earnings before provision for income taxes - - - - -	21,105,823	17,664,617
Provision for income taxes (Note 5) - -	10,950,000	8,855,000
NET EARNINGS FOR THE FISCAL YEAR -	<u>\$ 10,155,823</u>	<u>\$ 8,809,617</u>

CONSOLIDATED EARNINGS EMPLOYED IN THE BUSINESS

	FOR FISCAL YEAR ENDED JANUARY 4, 1967	JANUARY 5, 1966
Balance at beginning of year - - - -	\$ 43,060,897	\$ 38,306,657
Net earnings for the fiscal year - - -	10,155,823	8,809,617
	<u>53,216,720</u>	<u>47,116,274</u>
Deduct:		
Dividends paid (\$.30 per share) - -	4,067,681	4,055,377
BALANCE AT END OF YEAR - - - - -	<u>\$ 49,149,039</u>	<u>\$43,060,897</u>

SOURCE AND
APPLICATION OF FUNDS

FOR FISCAL YEAR ENDED
JANUARY 4, 1967 JANUARY 5, 1966

SOURCE OF FUNDS:

Net earnings for the year - - - -	\$ 10,155,823	\$ 8,809,617
Non-cash charges deducted in arriving at net earnings:		
Depreciation - - - - -	4,519,940	4,281,707
Deferred income taxes - - - - -	134,000	260,000
Amortization of bond and debenture discount and expense - - - -	108,780	95,456
Funds provided from operations - -	14,918,543	13,446,780
Proceeds from sale of bonds and debentures - - - - -	24,547,336	19,699,133
Receipts on sales of Class A shares -	652,938	1,030,652
Decrease in investments and advances	112,038	(2,101,057)
Disposal of capital assets - - - -	62,523	295,617
	<u>40,293,378</u>	<u>32,371,125</u>

APPLICATION OF FUNDS:

Expenditures for capital assets - - -	6,940,995	9,987,165
Refundable federal tax - - - - -	385,860	—
First mortgage bonds purchased for sinking fund - - - - -	963,000	1,604,000
Dividends to shareholders - - - -	4,067,681	4,055,377
	<u>12,357,536</u>	<u>15,646,542</u>
Resulting in an increase in working capital of - - - - -	27,935,842	16,724,583
Working capital at beginning of year -	109,512,273	92,787,690
WORKING CAPITAL AT END OF YEAR -	<u>\$137,448,115</u>	<u>\$109,512,273</u>

SIMPSON-SEARS LIMITED

and subsidiary companies

NOTES TO FINANCIAL STATEMENTS

	JANUARY 4, 1967	JANUARY 5, 1966
1. ACCOUNTS RECEIVABLE:		
Customer instalment accounts (after deducting unearned service charges) - - - - -	\$152,977,871	\$130,536,957
Miscellaneous accounts - - - - -	8,052,814	8,316,129
	161,030,685	138,853,086
Less allowance for doubtful accounts - - - - -	4,989,840	4,310,735
	<u>\$156,040,845</u>	<u>\$134,542,351</u>
2. INVESTMENTS AND ADVANCES:		
Investments include a 25% equity interest in Allstate Insurance Company of Canada and Allstate Life Insurance Company of Canada and a 46.3% equity interest in Photo Engravers & Electrotypers Limited.		
3. DEMAND AND SHORT TERM NOTES:		
These notes include at January 4, 1967 demand notes of \$20,000,000 payable to banks secured by the pledge of Secured Debentures Series A of Simpsons-Sears Acceptance Company Limited.		
4. LONG TERM DEBT:	JANUARY 4, 1967	JANUARY 5, 1966
Simpsons-Sears Limited First Mortgage Bonds—		
4¾% Series "A" maturing April 1, 1973 - - -	\$ 7,000,000	\$ 7,750,000
4½% Series "B" maturing April 1, 1979 - - -	7,500,000	8,125,000
5⅞% Series "C" maturing August 15, 1985 - -	10,000,000	10,000,000
	24,500,000	25,875,000
Less—First Mortgage Bonds purchased and held for sinking fund requirements - - - -	83,500	495,500
	<u>24,416,500</u>	<u>25,379,500</u>
Simpsons-Sears Acceptance Company Limited Secured Debentures—		
6¾% Series B maturing February 1, 1980 - -	20,000,000	20,000,000
5⅞% Series C maturing February 1, 1980 (U.S. \$5,000,000) - - - - -	4,879,695	4,879,695
5¾% Series D maturing July 1, 1981 - - - -	15,000,000	15,000,000
5½% Series E maturing March 1, 1985 - - -	10,000,000	10,000,000
6¼% Series F maturing March 1, 1986 - - -	10,000,000	—
7% Series G \$2,800,000 maturing Nov. 1, 1976 and \$12,200,000 maturing November 1, 1986 -	15,000,000	—
	74,879,695	49,879,695
	<u>\$ 99,296,195</u>	<u>\$ 75,259,195</u>

Sinking fund retirements are required on 4¾% First Mortgage Bonds Series "A" of \$750,000 on April 1, annually through 1972, and on 4½% First Mortgage Bonds Series "B" of \$625,000 on April 1, annually through 1978. Prior to January 4, 1967 first mortgage bonds of the principal amount of \$1,375,000 were purchased and tendered to the trustee in satisfaction of the sinking fund retirements due on April 1, 1967. Sinking fund retirements on 5⅞% First Mortgage Bond Series "C" of \$500,000 annually commence on August 15, 1971.

5. DEFERRED INCOME TAXES: To January 4, 1967 depreciation deductible for tax purposes has exceeded the normal depreciation recorded in the accounts. Amounts equivalent to the resulting reductions in income taxes currently payable have been charged to earnings as part of the provisions for income taxes and set aside on the balance sheet as deferred income taxes.
6. CAPITAL STOCK: During the fiscal year ended January 4, 1967, 25,000 Class A Shares were issued to Simpsons-Sears Profit Sharing Retirement Fund for \$414,750 and under the Employees' Stock Purchase Plan 174,050 Class A shares were issued for \$2,523,725. As at January 4, 1967 options were held by employees, other than officers or directors, to subscribe for 2,100 Class A shares at \$18.25 per share.
- The three classes of shares rank equally in all respects except that the Class A Shares are non-voting and are entitled to a non-cumulative preferential dividend of $8\frac{1}{4}\%$ per share in any year. After payment of a similar dividend to the holders of the Class B and Class C Shares all three classes rank equally as to dividends. The Class A Shares are listed on the Toronto and Montreal Stock Exchanges. The Class B Shares are owned by Simpsons, Limited and the Class C Shares by Sears, Roebuck and Co.
7. COMMITMENTS AND CONTINGENT LIABILITIES:
- (a) Annual rentals under long term leases (leases for a period of more than five years) amount to approximately \$2,300,000. For the most part these rentals are on leases for periods of from 20 to 35 years.
 - (b) Simpsons-Sears Limited has agreed to guarantee bank advances to a maximum of \$9,650,000 as required by a partly-owned company organized to develop and operate a shopping centre.
8. REMUNERATION OF DIRECTORS: For the fiscal year ended January 4, 1967 the remuneration of directors, including salaries of officers who are also directors, amounted to \$278,275.
9. RECLASSIFICATIONS: As of January 4, 1967 the amount previously shown on the consolidated balance sheet for "prepaid charges" was reclassified to "prepaid advertising and other charges" and "equipment and fixtures". The amortization of the amount included in "equipment and fixtures" has been charged to earnings as part of the provision for depreciation. In addition, supply stocks previously included in "inventories" have been reclassified to "prepaid advertising and other charges". For comparative purposes, similar reclassifications have been made in the financial statements for the fiscal year ended January 5, 1966.

PRICE WATERHOUSE & CO.

55 YONGE STREET
TORONTO 1

AUDITORS' REPORT

TO THE SHAREHOLDERS OF SIMPSONS-SEARS LIMITED:

We have examined the consolidated balance sheet of Simpsons-Sears Limited as at January 4, 1967 and the consolidated statements of earnings and earnings employed in the business and source and application of funds for the fiscal year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of Simpsons-Sears Limited and its subsidiary companies as at January 4, 1967 and the results of their operations and the source and application of funds for the fiscal year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants.

March 3, 1967.

SIMPSON-SEARS LIMITED

and subsidiary companies

TEN YEAR SUMMARY

	1966	1965
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RESULTS FOR THE YEAR (in thousands)

Net sales - - - - -	\$407,759	\$351,708
Net earnings before income taxes - - - -	21,106	17,665
Provision for income taxes - - - - -	10,950	8,855
Net earnings - - - - -	10,156	8,810
Dividends to shareholders - - - - -	4,068	4,055
†Provision for depreciation - - - - -	4,520	4,282
†Capital expenditures - - - - -	6,941	9,987

YEAR-END POSITION (in thousands)

†Inventories - - - - -	72,895	62,763
†Working capital - - - - -	137,448	109,512
†Land, buildings and equipment—net - -	53,549	51,191
Long term debt - - - - -	99,296	75,259
Shareholders' equity (book value) - - - -	98,956	89,929

PER SHARE OF CAPITAL STOCK (in dollars)

Net earnings - - - - -	.74	.65
Dividends to shareholders - - - - -	.30	.30
Shareholders' equity (book value) - - - -	7.20	6.64

*53 weeks

†All years reclassified to conform with the 1966 presentation
(see Note 9 to the financial statements)

1964	1963*	1962	1961	1960	1959	1958	1957*
\$315,135	\$282,042	\$263,690	\$259,170	\$243,766	\$236,832	\$211,729	\$198,323
16,880	14,750	12,383	13,345	12,351	12,850	11,465	5,776
8,535	7,300	6,285	6,750	6,200	6,630	5,438	2,622
8,345	7,450	6,098	6,595	6,151	6,220	6,027	3,154
3,601	2,911	2,884	2,192	—	—	—	—
4,016	3,196	3,230	3,005	3,226	3,108	3,104	2,402
8,323	5,456	4,118	1,679	2,615	3,446	5,057	6,144
55,170	46,549	44,562	44,163	41,025	41,392	34,352	34,887
92,788	96,928	90,919	88,918	69,091	40,663	34,448	26,906
45,781	41,676	42,965	42,078	43,506	45,157	48,317	49,392
56,863	58,348	58,903	59,949	46,174	26,638	30,683	32,303
84,441	80,575	75,409	71,079	66,560	59,737	52,815	46,395
.62	.55	.46	.50	.47	.48	.47	.25
.26 $\frac{2}{3}$	.21 $\frac{2}{3}$	.21 $\frac{2}{3}$	.16 $\frac{2}{3}$	—	—	—	—
6.25	5.98	5.64	5.40	5.06	4.60	4.12	3.65

SIMPSONS-SEARS LIMITED

RETAIL STORES AND CATALOGUE OPERATIONS

maritime

RETAIL STORES

St. John's, Nfld.

Fredericton, N.B.

Saint John, N.B.

CATALOGUE

Maritime Catalogue Centre, Halifax, N.S.

58 Catalogue Sales Offices

central

RETAIL STORES

Quebec City, P.Q.

Hamilton, Ont.

Ottawa, Ont.

St. Catharines, Ont.

Belleville, Ont.

Kingston, Ont.

Peterborough, Ont.

Sarnia, Ont.

Dundas, Ont.

Kitchener, Ont.

Port Arthur, Ont.

Sault Ste. Marie, Ont.

Guelph, Ont.

CATALOGUE

Central Catalogue Centre, Toronto, Ont.

168 Catalogue Sales Offices

midwestern

RETAIL STORES

Winnipeg, Man.

Moose Jaw, Sask.

Calgary, Alta.—2 stores

Prince Albert, Sask.

Edmonton, Alta.—3 stores

CATALOGUE

Midwestern Catalogue Centre, Regina, Sask.

72 Catalogue Sales Offices

pacific

RETAIL STORES

Burnaby, B.C.

Nanaimo, B.C.

Richmond, B.C.

CATALOGUE

Pacific Catalogue Centre, Vancouver, B.C.

44 Catalogue Sales Offices

OUR EMPLOYEES

Simpsons-Sears employees share directly in the profits and become important shareholders of the Company through their participation in the Profit Sharing Retirement Fund. Shares become the outright property of the individual Fund member after 5 years' service. This year, including dividends on Simpsons-Sears shares, the Company contributed \$1,658,997 directly to employees' Profit Sharing accounts.

While Profit Sharing makes it possible for employees to share in the growth and development of the Company, it is equally important that they share in the management of the business. Managers at all levels have considerable freedom of decision which develops in them the initiative and desire to assume even greater responsibility. This development of management people is the most significant factor in Simpsons-Sears future and is, in fact, the Company's greatest strength.

Within the guidelines of the management development programme, Simpsons-Sears employees, through their own efforts, are creating an exciting future for men and women who have the ability and ambition to provide Canadian consumers with the best possible goods and services.

Through the enthusiastic, cooperative efforts of employees in all areas of the Company, Simpsons-Sears is achieving an enviable record of growth which will benefit both employees and shareholders as well as the Canadian consumer.
